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SUBJECT: KAZAKHSTAN: THE STRATEGIC IMPORTANCE OF AKTAU SEA PORT

REF: (A) ASTANA 1201  
(B) ASTANA 1196  
(C) ASTANA 1105  
(D) ASTANA 0748  
(E) ASTANA 0675

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11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: Post has been informed that the U.S. Trade and Development Agency has decided not to approve two proposed projects to develop Kazakhstan's maritime and port capabilities because Kazakhstan conducts trade with Iran through Aktau, its principal Caspian port, and thus the two projects might indirectly benefit the Iranians. We urge immediate reconsideration of this decision. Enhancing Kazakhstan's maritime and port capabilities and promoting the development of Aktau, Kazakhstan's sole Caspian deepwater sea port, support our strategic interests of promoting global energy security and stabilizing Afghanistan. Aktau provides an alternative export route for Kazakhstan's increasing crude oil production, which allows crude to be shipped westward through Azerbaijan and Georgia. Aktau is also a key transportation hub for the Northern Distribution Network, which provides for transit of non-lethal supplies in support of U.S. troops in Afghanistan. Iran was responsible for just 1.9% of Kazakhstan's overall trade turnover in 2008. Much of this trade is conducted through Aktau port; however, Kazakhstani crude exports through Aktau to Iran have declined by half since 12005. END SUMMARY.

13. (SBU) Post has been informed that the U.S. Trade and Development Agency (USTDA) has decided not to approve two proposed projects to develop Kazakhstan's maritime and port capabilities because Kazakhstan conducts trade with Iran through Aktau, its principal Caspian port, and thus the two projects might indirectly benefit the government in Tehran. The first project would help Kazakhstan establish Electronic Documentation Procedures (EDP) to reduce tank

vessel port call time associated with vessel clearance requirements.

EDP would increase efficiency at existing Kazakhstani ports, reducing the cost of transportation while at the same time paving the way for greater transparency and better monitoring by national maritime authorities. The second project would entail a review of Kazakhstan's maritime practices, regulations, and legislation to ensure that they meet international standards. Implementation and compliance with international maritime treaties, laws, and regulations will have a significant impact on the technical infrastructure, capital investment, and operating costs of trans-Caspian crude transportation.

14. (SBU) We urge immediate reconsideration of the decision not to fund the two projects. Enhancing Kazakhstan's maritime and port capabilities and promoting the development of Aktau, Kazakhstan's sole deepwater sea port, supports our strategic interests of promoting global energy security and stabilizing Afghanistan.

15. (SBU) Aktau provides an alternative export route for Kazakhstan's increasing oil production, enabling crude to be shipped westward through Azerbaijan and Georgia and thus reducing Kazakhstan's reliance on Russia as a transit country. The Tengizchevroil (TCO) consortium, owned 50 percent by Chevron and 25 percent by ExxonMobil, already ships approximately 100,000 barrels per day (bpd) of crude from Aktau to Baku, for onward transit to world markets via the Baku-Tbilisi-Ceyhan pipeline. Once the Kashagan consortium -- in which ExxonMobil and ConocoPhillips have significant ownership stakes -- commences production in 2014, it too will need initially to use Aktau for any crude transit which does not go through Russia. Over the longer run, international oil companies support the development of the Kazakhstan-Caspian Transportation System -- which entails constructing a pipeline from the oil fields to the new Caspian port at Kuryk -- but they will not commit crude volumes to the system unless they have confidence in its safety and reliability. Both USTDA projects would help in providing that confidence.

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16. (SBU) Aktau port also plays a critical role in the Northern Distribution Network (NDN), facilitating the transit of non-lethal military cargo to U.S. troops in Afghanistan. As reported in reftel A, Aktau Port's Novikov told the Ambassador on July 16 that Aktau fully supports the NDN and is prepared to increase its capacity to process vessels and unload containers. USTDA's EDP project in particular would help to increase Aktau's capacity and efficiency.

17. (SBU) Despite the close geographic proximity of Kazakhstan and Iran, Iran is a relatively small trading partner for Kazakhstan. In 2008, Kazakhstan exported just \$2.040 billion of goods (mostly crude oil, wheat, and steel) to Iran, and imported a miniscule \$60 million. The total \$2.1 billion in two-way trade accounted for just 1.9% of Kazakhstan's overall \$109.1 billion in trade turnover for 2008. Much of Kazakhstan-Iran bilateral trade is conducted through Aktau, which in 2008 shipped 1.5 million metric tons of goods to Iran, and received 45,000 metric tons of goods from Iran. However, KazMorTransFlot officials told the Ambassador that oil exports from Kazakhstan to Iran have declined to about 50,000 barrels per day (bpd), or half of the volume exported in 2005. As far as we know, most of Aktau's trade is conducted with Azerbaijan and Russia, not/not Iran.

18. (SBU) COMMENT: We are unclear if there is any legal reason why USTDA cannot move forward with the two projects it has developed in conjunction with its Kazakhstani partners. We believe that our strategic interests in enhancing Kazakhstan's maritime and port capabilities and developing Aktau port trump any indirect and incidental benefits to the Iranians from the proposed projects. We thus strongly recommend that USTDA reconsider its decision not to fund the projects. The government of Kazakhstan is well aware of U.S. policy toward -- and sanctions against -- Iran, and has been a responsible partner in that regard. In fact, in recognition of U.S. policy, Kazakhstan's oil exports to Iran continue to decline, even as Kazakhstan's overall trade volume increases. Our failure to move forward on the USTDA projects would send the government a mixed signal, calling into question the sincerity and seriousness of our

support for Kazakhstan's multi-vector crude export policy, and the importance of Kazakhstan to the Northern Distribution Network. END COMMENT.

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